

GENERAL INFORMATION

The Community Reinvestment Act (“CRA”) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution’s record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution’s record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of Community Bank-Missoula, Inc., Missoula, Montana, prepared by the Federal Reserve Bank of Minneapolis, the institution’s supervisory agency, as of February 2, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION’S CRA RATING: This institution is rated “Satisfactory.”

Several factors support rating the bank’s CRA performance satisfactory. First, the bank lends to borrowers of different income levels and businesses and farms of different sizes. Second, the distribution of the bank’s loans throughout its assessment area is reasonable. Third, the bank’s net loan-to-deposit ratio is reasonable and shows the bank is willing to assist in meeting the credit needs of its assessment area. Finally, the bank originates a significant majority of its loans in the assessment area.

DESCRIPTION OF INSTITUTION

Based on its size and financial condition, the bank is able to meet the credit needs of the communities in its assessment area effectively. The bank received a satisfactory rating at its last CRA evaluation, dated June 17, 1996. The bank is a de novo institution that opened January 19, 1995. The bank's main office is located in a growing retail and services sector of northwest Missoula. The main lobby is open 8:00 a.m. to 4:00 p.m. Monday through Thursday and 8:00 a.m. to 5:00 p.m. on Friday. The bank opened a branch office in downtown Missoula since the last evaluation. The bank's branch, 218 East Main, Missoula, is open 9:00 a.m. to 4:00 p.m. Monday through Thursday and 9:00 a.m. to 5:00 p.m. on Friday. The main bank and branch drive-up facilities are open 7:30 a.m. to 6:00 p.m. Monday through Friday. The bank also operates two cash-dispensing automated teller machines ("ATM"). One ATM is located in the drive-up facility area of each office, and both ATMs are available 24 hours a day.

According to the December 31, 1997, Report of Condition ("ROC"), the bank had total assets of approximately \$21.2 million. Since the last evaluation, the bank's total assets have grown steadily from \$13.0 million as of June 30, 1996. The December 31, 1997, net loan-to-deposit ratio is 58.2%. Since June 30, 1996, net loans have increased by approximately \$4.5 million, or 69.2%. Also, during the same time period, deposits increased by approximately \$8.0 million, or 74.6%. The bank's quarterly average net loan-to-deposit ratio since the last evaluation is 62.7%. The significant increase in the net loan portfolio evidences the bank's willingness and ability to assist in meeting the credit needs in its assessment area.

The bank's loan portfolio is composed of approximately 65.5% commercial, 21.0% consumer real estate, 12.7% consumer, and .8% agricultural loans. The composition of the loan portfolio has remained basically the same as it was at the time of the last evaluation and reflects the demand for specific types of loans by individuals, businesses, and farms in the assessment area.

The bank offers a variety of loan products to fulfill the credit needs of individuals, businesses, and farms within its assessment area. It extends the following types of loans: consumer, including student loans; residential real estate, including mobile home and construction loans; commercial; and other credit products, including home equity lines of credit. In addition to these conventional loan products, the bank offers Federal Housing Administration and Department of Veterans Affairs loans, which it sells on the secondary market. It also offers business loans through Small Business Administration ("SBA") programs.

DESCRIPTION OF COMMUNITY BANK - MISSOULA, INC.'S ASSESSMENT AREA

The bank defines its assessment area as Missoula County, Montana. As previously mentioned, the bank's main office is in northwest Missoula, and the branch is located in downtown Missoula. Although Missoula County has not been designated a metropolitan statistical area ("MSA"), it is divided into 19 census tracts. According to 1990 U.S. Census data, the assessment area's population is 78,687. The Montana Department of Labor and Industry estimates the 1996 Missoula County population to be approximately 88,500. The largest city in the assessment area is Missoula, which has grown from approximately 43,000 in 1990 to more than 51,000 in 1996, according to data published by one of the community contacts.

CRA divides income levels into four categories: low, moderate, middle, and upper. Because the bank's assessment area is not in an MSA, the categorization of a borrower or geography's income is determined relative to the statewide nonmetropolitan median family income. Low-income individuals have incomes of less than 50% of the statewide nonmetropolitan median family income, while moderate-income

individuals have incomes of at least 50% but less than 80% of this amount. The regulation defines a middle-income person as one with an income of at least 80% but less than 120% of the statewide nonmetropolitan median income. An individual with an income that is 120% or more of this figure is considered an upper-income person. The 1997 updated statewide nonmetropolitan median family income is \$36,100; this figure is used to classify borrowers' income. Census tracts are classified using similar categories based on the level of the median family income in the geography compared to the 1990 statewide nonmetropolitan median family income of \$27,352.

As previously stated, the bank's assessment area is divided into 19 census tracts. According to 1990 census data, one tract is designated low income, four tracts are designated moderate income, nine tracts are designated middle income, and five tracts are designated upper income. The low-income tract has a total population of 1,495, the moderate-income tracts have a total population of 13,811, the middle-income tracts have a total population of 35,681, and the upper-income tracts have a total population of 27,700.

Tract 5.00, having median family and household incomes of \$0, comprises much of the campus of the University of Montana. As such, its population is students; therefore, tract 5 has no families or households. According to the 1990 census data, 2.3% of the residents of the assessment area reside in dormitories.

Representing 17.6% of the assessment area's population, Tracts 2.01, 3.00, 7.00, and 10.00 are moderate-income areas. Three of the four tracts are located in the northern region of Missoula and are zoned primarily for commercial use. The fourth tract is located in southwestern Missoula. The median family incomes for the four tracts range from \$15,477 to \$21,534. Tracts 2.01 and 3.00 have the two lowest median family incomes of the moderate-income tracts. As a percentage of the 1990 statewide nonmetropolitan median family income, the four tracts' median family incomes range from 56.6% to 78.7%. The median household incomes for the moderate-income tracts range from \$9,206 to \$16,065. The moderate-income tracts have 3,057 and 6,556 families and households, respectively. The bank's main office is in tract 2.01, and the branch office is in tract 3.00.

Tracts 2.02, 4.00, 6.00, 8.00, 11.00, 12.00, 14.00, 15.00, and 17.00 are middle-income tracts. These tracts are dispersed throughout the assessment area and have 9,539 families. The median family income levels of the nine middle-income tracts range from \$22,197 to \$32,340. As a percentage of statewide nonmetropolitan median family income, the nine tracts' median family incomes range from 81.2% to 118.3%. Five of the nine tracts have income levels that exceed 100% of the 1990 statewide nonmetropolitan median family income. According to 1990 census data, the population of the middle-income tracts is 35,681, or 45.4% of the assessment area's total population. There are 14,259 households in the nine tracts, and the median household income levels range from \$16,642 to \$30,088.

Tracts 1.00, 9.00, 13.01, 13.02, and 16.00 are upper-income tracts. These tracts are on the perimeter of Missoula and have 7,685 families. The median family income levels of the five upper-income tracts range from \$33,276 to \$42,285. As a percentage of the 1990 statewide nonmetropolitan median family income, the five tracts range from 121.7% to 154.6%. Three of the five tracts have income levels that exceed 130% of the statewide nonmetropolitan median family income. According to 1990 census data, the population of the upper-income tracts is 27,700, or 35.2% of the assessment area's total population. There are 10,203 households in the five tracts, and the median household income levels range from \$29,449 to \$38,602.

According to 1990 census data, the assessment area's median family income is \$30,360, while the median household income is \$23,388. Both figures are slightly higher than the median family and household incomes for nonmetropolitan areas in Montana, which are \$27,352 and \$22,345, respectively. Of the

31,018 households in the assessment area, approximately 23% are low income, 16% are moderate income, 17% are middle income, and 44% are upper income. Of the 20,281 families in the assessment area, approximately 19% are low income, 16% are moderate income, 20% are middle income, and 45% are upper income. Approximately 18% of the households and 12% of the families in the assessment area have incomes below the poverty level. The percentage of households with incomes below the poverty level in the assessment area is slightly higher than the statewide nonmetropolitan percentage of households with incomes below the poverty level. The percentage of families with incomes below the poverty level in the assessment area is slightly lower than the statewide nonmetropolitan percentage of families with incomes below the poverty level.

Examiners made contacts with a local government official and an economic development official as part of the CRA evaluation process. Information obtained from these individuals and bank management was used in evaluating the bank's CRA performance.

Employment in Missoula County is concentrated in the retail and service (other than health) sectors. According to 1996 data from the Montana Department of Labor and Industry, these two sectors provided 18,356 of the 42,606 jobs in Missoula County. Relative to other sectors, however, retail and services businesses offer lower-income jobs. The average annual wages for the retail and services sectors are \$12,725 and \$16,818, respectively. The 1996 average annual wage for all industries is \$21,814. Government is the next largest sector with 7,712 jobs. The health services sector provides about 4,251 jobs. The 1996 average annual wages for the government and health services sectors are \$27,132 and \$27,773, respectively.

Community contacts noted a lack of affordable housing in Missoula. According to 1990 census data, housing is slightly less affordable in the assessment area than Montana's nonmetropolitan areas. The housing affordability ratio (the result of dividing the median household income by the median housing value) for the assessment area is .36; the ratio for Montana's nonmetropolitan areas is .41. Community contacts also noted that the Missoula area's significant population growth during the past six years has created a greater demand for affordable housing.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance in meeting the credit needs of its assessment area is satisfactory. Much of the analysis on the following pages was based on a statistical sample of 77 consumer loans and 73 small business loans originated since the last evaluation. The criteria discussed below were reviewed in determining the bank's CRA rating. In assigning the overall rating, the greatest weight was placed on the assessment of lending to borrowers of different income levels and to businesses and farms of different sizes as well as the geographic distribution of loans. These two factors most closely measure the bank's efforts to meet the credit needs of its community.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's net loan-to-deposit ratio meets the standards for satisfactory performance based on loan demand, the lack of any identified unmet credit needs, and the ratios of national peers and local competitors. Since the previous evaluation, the quarterly average of the bank's net loan-to-deposit ratio is 62.7%. It has increased from the quarterly average net loan-to-deposit ratio of 47.4% noted at the last evaluation. According to the December 31, 1997, ROC, the bank's net loan-to-deposit ratio is 58.2%. The following table, based on quarterly ROC data, shows the steady, significant growth in deposits and the net loans from June 30, 1996, to December 31, 1997.

DATE	DEPOSITS (In Thousands)	NET LOANS (In Thousands)	NET LOAN-TO- DEPOSIT RATIO
December 31, 1997	\$18,791	\$10,939	58.2%
September 30, 1997	\$17,191	\$ 9,977	58.0%
June 30, 1997	\$13,759	\$10,083	73.3%
March 31, 1997	\$13,712	\$ 8,838	64.5%
December 31, 1996	\$13,204	\$ 8,231	62.3%
September 30, 1996	\$11,957	\$ 7,485	62.6%
June 30, 1996	\$10,761	\$ 6,466	60.1%

The net loan-to-deposit ratios listed above do not include the bank's significant volume of unused lines of credit and residential real estate loans sold on the secondary market.

Management indicated bank competition in the local area is very intense and loan growth is a long, slow process. As of its September 30, 1997, Uniform Bank Performance Report, the bank's 58.0% net loan-to-deposit ratio is significantly below its national peer group average of 75.3%. The bank's ratio places it in the 39th percentile compared with its peers. The following table shows the asset size and quarterly average net loan-to-deposit ratio for the bank and two other institutions in the Missoula area.

BANK	TOTAL ASSETS (As of September 30, 1997) (In Thousands)	QUARTERLY AVERAGE NET LOAN-TO- DEPOSIT RATIO
Community Bank-Missoula, Inc. Missoula, Montana	\$ 19,571	63.5%
Bitterroot Valley Bank Lolo, Montana	\$ 64,331	102.7%
First Security Bank of Missoula Missoula, Montana	\$139,491	81.6%

As stated previously, the competition among financial institutions in the assessment area is intense. The two other institutions shown in the table have significantly larger total assets and have been operating longer than the bank. Therefore, the bank's quarterly average net loan-to-deposit ratio does not appear unreasonable.

Despite the local competition, the bank's loan portfolio has grown significantly since the last evaluation. The community contacts indicated there are no known unmet credit needs in the assessment area. Based on loan demand in the assessment area, the bank's increasing lending activity, the lack of any identified unmet credit needs, and intense local competition, the bank's net loan-to-deposit ratio meets the standards for satisfactory performance.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank's lending activity in the assessment area meets the standards for satisfactory performance. A review of the statistical sample of loans originated by the bank since the last evaluation reveals that the bank extended a significant majority of its loans inside the assessment area. The following table shows the percentage of loans within the assessment area based on total number and loan amount in two major loan categories.

LOANS IN THE ASSESSMENT AREA		
Loan Type	Total Number of Loans	Total Amount of Loans
Consumer Loans	86%	90%
Small Business/Farm Loans	84%	74%

The bank's consumer lending in the assessment area has increased slightly, but its small business/farm lending in the assessment area has decreased since the last evaluation. At that time, the loan data showed the bank extended 85% of the number and 74% of the dollar amount of consumer loans to borrowers in the assessment area. The respective figures for small business/farm loans were 94% and 92%.

As the data in the table above show, the bank made a significant majority of its loans within the assessment area. However, its performance in the small business/farm loan category declined since the last evaluation. Based on the concentration of lending within the assessment area, the bank meets the standards for satisfactory performance in this category.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO BUSINESSES OF DIFFERENT SIZES

The bank's level of lending to individuals of different income levels and to businesses of different sizes is reasonable and meets the standards for satisfactory performance. As previously mentioned, CRA groups income levels into four categories: low, moderate, middle, and upper. The following table illustrates the distribution of consumer loans by borrower income level.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME LEVEL*				
Loan Type	Low-Income Borrowers	Moderate-Income Borrowers	Middle-Income Borrowers	Upper-Income Borrowers
Consumer Loans				
Total Number of Loans	12%	24%	20%	44%
Total Amount of Loans	3%	12%	19%	65%
* Income levels are based on Montana's 1997 statewide nonmetropolitan median family income of \$36,100.				

The data in the table indicate that the bank originated 36% of its consumer loans in the sample to low- and moderate-income borrowers. Its consumer lending to low- and moderate-income borrowers has declined since the last evaluation; at that time, the data showed the bank extended 39% of its consumer loans to low- and moderate-income borrowers. As previously mentioned in the Description of Assessment Area section, approximately 39% of the households and 35% of the families in the bank's assessment area are classified as low and moderate income based on the 1990 census figures. More specifically, 23% and 16% of assessment area households and are low and moderate income, respectively. The comparable respective figures for assessment area families are 19% and 16%. Although the bank's combined lending to low- and moderate-income borrowers is comparable to area demographics, its lending to low-income borrowers is somewhat lower than expected given the assessment area's demographics. The fact that low-income borrowers received a smaller proportion of the bank's loan originations is not unreasonable; low-income borrowers typically qualify for smaller loan amounts than other borrowers. To service the credit needs of low- and moderate-income consumer borrowers, the bank offers small dollar amount loans.

The bank's lending to middle- and upper-income borrowers generally reflects the assessment area's demographics. The 1990 census figures reveal that approximately 17% of the households in the assessment area are designated middle income and 44% of the households are designated upper income. Middle- and upper-income families represent 20% and 45% of the assessment area, respectively. The bank's distribution of consumer loans reasonably reflects the percentage of households and families in each of the four income categories.

As previously discussed, commercial loans comprise approximately 65.5% of the bank's loan portfolio. Agricultural loans comprise a very small percentage, .8%, of the bank's loan portfolio. For purposes of this evaluation, small business loans are loans with original principal balances of \$1,000,000 or less and small farm loans are loans with original principal balances of \$500,000 or less. The bank extended 95% of the small business/farm loans in the assessment area to commercial borrowers with gross annual revenues of \$1 million or less. In addition, 85% of the bank's small business/farm loans were for amounts less than or equal to \$100,000, 8% were for amounts more than \$100,000 but less than or equal to \$250,000, and 7% were for amounts more than \$250,000 but less than or equal to \$1,000,000. To service the credit needs of small businesses, the bank offers SBA loans.

Based on the level of consumer lending to low- and moderate-income borrowers relative to the representation of those individuals in the community and the number and type of small business/farm loans extended, the bank meets the standards for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of the bank's loans to geographies of different income levels is reasonable and meets the standards for satisfactory performance. The distribution of census tracts by income levels is 5.3% low income, 21.1% moderate income, 47.4% middle income, and 26.3% upper income. The bank extended loans in 89.5% of the tracts within the assessment area. The distribution of consumer loans is as follows: 0% of low-income tracts, 100% of moderate-income tracts, 78% of middle-income tracts, and 100% of upper-income tracts. The distribution of small business/farm loans is only slightly different than the consumer loans; the bank extended small business/farm loans in 0% of low-income tracts, 100% of moderate-income tracts, 67% of middle-income tracts, and 80% of upper-income tracts.

The assessment area's one low-income tract is almost entirely composed of the University of Montana campus. As such, it has a high student population, which only comprises approximately 2% of the assessment area's total population. Students have limited demand for the loans that the bank offers. Because the low-income tract is university property with a student population, the bank has very limited opportunities to lend in the low-income area.

The assessment area has four moderate-income tracts; approximately 18% of the assessment area's total population resides in these tracts. Approximately 45% of the assessment area's population resides in the nine middle-income tracts, and approximately 35% reside in the five upper-income tracts. As the following table indicates, the bank has the majority of its loans in middle- and upper-income census tracts.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY CENSUS TRACT INCOME LEVEL				
Loan Type	Low- Income	Moderate- Income	Middle- Income	Upper- Income
Consumer				
Total Number of Loans	0%	15%	45%	39%
Total Amount of Loans	0%	34%	33%	33%
Small Business/Farm				
Total Number of Loans	0%	30%	31%	39%
Total Amount of Loans	0%	54%	25%	21%

The bank's consumer lending in the moderate-income tracts is comparable to the relative proportion of assessment area families living in these areas, 15%. The same is true about the bank's consumer lending to families residing in the assessment area middle- and upper income tracts. As compared to the relative number of households in moderate-income area, the bank's consumer loan distribution is slightly less than expected given the assessment area's demographics. Notably, the relative proportion of the dollar amount of consumer loans extended to borrowers in the moderate-income census tracts is much higher than expected given the assessment area's demographics. Since the last evaluation, the bank's consumer lending to borrowers in the moderate-income tracts has increased significantly from 6% of the total number of loans and 11% of the total dollar amount of loans.

The bank's small business/farm lending in the moderate-income areas is good. Since both of the bank's offices are in moderate-income commercial areas, it originated numerous small business loans in these census tracts. More specifically, it extended 9.8% of the total number and 43.9% of the total amount of assessment area small business loans in tract 2.01, where the bank's main office is located. The comparable figures for tract 3.00, where the branch is located, are 9.8% and 8.1%, respectively.

A tract-by-tract analysis reveals that bank's loans are reasonably distributed throughout the moderate-, middle-, and upper-income tracts. The one low-income tract comprises the University of Montana campus; therefore, the bank has limited opportunities to extend credit in this area. The moderate-income tracts are largely commercial areas. This fact is reflected in the higher percentage of small business loans compared with consumer loans extended to borrowers in the moderate-income tracts. The percentage of the total number of consumer loans in the middle- and upper-income tracts coincides closely to the population percentages in the respective tracts. Therefore, based on the distribution of the bank's loans throughout the assessment area, the lack of unmet credit needs, and the concentrations of the residents, the bank meets the standards for satisfactory performance in this category.

GENERAL

The evaluation did not reveal any substantive violations of fair lending laws or regulations. In addition, the bank has not received any CRA-related complaints since the last evaluation.

PUBLIC DISCLOSURE

February 2, 1998

Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Community Bank-Missoula, Inc.

Name of Depository Institution

093007620000

Identification Number of Institution

Missoula, Montana

Address of Institution

Federal Reserve Bank of Minneapolis
90 Hennepin Avenue
Minneapolis, Minnesota 55480-0291

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.